

PurchasingWorld

OCT/1985



**Finding better value
in office equipment**

PurchasingWorld®

Vol. 29 No. 10-October 1985

Helping you manage
the business of buying

Special report: Better value in office purchasing

47 Overview: Finding better value in office purchasing

As purchasing professionals become more involved in the planning and implementation of the automated office, they are asking "Where do we go from here?" In this special update, *PW* takes a closer look at new developments and new products that are shaping the office of the future.

Vendor resource lists: *PW* has compiled listings of the major suppliers in the copier, electronic typewriter, and facsimile markets. Use the listings as a quick reference to gather detailed information about the companies and their products.

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76 Bringing order to chaos with forms management

When Brockway Inc., Brockway, PA, implemented a professional forms management program in conjunction with Standard Register Co., Dayton, OH, the savings were immediate and substantial.

92 Producer prices: three acts, same scenario through 1987

Unimpressive economic growth will continue to put a lid on prices, says DRI in its latest Cost Forecasting Service report. Look for overall producer quotes to creep up less than 1% this year and a mere 2.5% in 1986.

Cover photo: Courtesy of AT&T Information Systems.

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PW PREDICTS

Robert S. Reichard, executive editor

Prices won't stay low "forever"

The current price lull should last at least another few months and could easily spill over into early 1986 as well.

Seasonal demand pickup this fall is just not turning out robust enough to reverse recent shakiness. Part of this, of course, reflects the continuing close-to-the-vest inventory policies of most firms. But lackluster consumption gains are an even more significant factor. Real GNP should advance at only a 3% annual rate over the fourth quarter—far under the 5-6% rate needed to clear up current supply gluts and to put markets into better balance.



The failure of recent price boosting attempts in chemicals, steel, plastic resins, and many component parts suggests that buyers continue to call most of the signals. The hefty discounts now being offered to nail down volume orders are another indication that it is a buyers' market.

Also indicative of continued easiness are sagging raw material prices. *PW's* Price Barometer is now running more than 10% under year-ago levels. Uncle Sam's more broadly-based crude material price index is down to 6%.

Wage pressures are surprisingly restrained too. Average hikes for the non-farm business sector are up only 4% over 1984. And unions are no longer insisting on cost-of-living adjustment (COLA) clauses. In fact, the number of workers renegotiating COLAs fell to 173,000 in the first half of 1985 (half the 1984 reading).

Current buyer surveys also add to the overall price optimism. The NAPM Business Survey Committee recently noted that some 20% of responding buyers are now experiencing lower prices.

The latter 5% figure, incidentally, is the lowest reading since the December 1982 when we were at the low point of the recession. Items reported as being lower include aluminum, steel, integrated circuits, folding cartons, corrugated boxes, and caustic soda. A new *PurchasingWorld* survey details an even longer list of items where near-term softness is anticipated.

There is no guarantee that prices will stay as they are forever. If you look hard enough, there are some signs of possible acceleration by mid or late 1986. For one, 10-15% has been whittled off the U.S. dollar since early 1985. This could mean somewhat higher import prices by next spring or summer.

Low productivity also continues to be a long-term worry. Nonfarm business efficiency remained virtually unchanged over the past year, meaning that any wage increases that are occurring will sooner or later have to be passed along.

Other signs of possible price acceleration over the long pull: 1) slowly declining producer stockpiles of metals and other basic raw materials, and 2) global rationalization of some of today's excess capacity.

In any case, DRI's regular quarterly forecast points to about a 2.5% increase in industrial producer prices for 1986 overall—up from this year's expected 0.8% rise. And a new *PW* survey suggests pretty much the same trend. The average increase in procurement costs over the next 12 months is pegged at 3.5%.

Energy

Energy is looking better and better.

A new DOE study suggests that overall quotes will be no higher a year from now than they are today. In fact, in the case of basic crude oil, gasoline, No. 6 resid, and propane, tags could be under current levels by late 1986.

Nor do the assumptions upon which these projections are based seem all that unreasonable—namely (1) a decline in crude oil prices to about \$26/barrel by the end of the year, with little change in 1986, and (2) about 2-2.5% average annual increase in GNP over the forecast period. Those gains would yield a total energy increase of 1.4% this year and 1.9% in 1986.

■ **Gasoline:** As stocks are rebuilt and the world oil price edges lower, gasoline tags are projected to fall 4¢/gallon—with 1986 averages put at \$1.15/gallon.

■ **Heating oil:** Assuming normal weather in 1986, the price here should remain at 1985 levels—with retail quotes expected to average out near \$1.03/gallon.

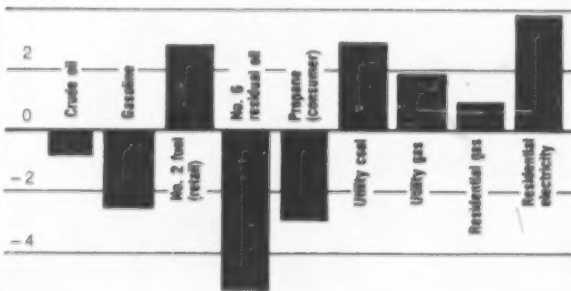
■ **Resid oil:** With the British coal strike over, prices should drop 7¢/gallon this year and another 7¢/gallon in 1986 (to nearly 55¢/gallon).

■ **Electricity:** Residential prices are projected to rise 4% next year (or slightly above the overall inflation rate)—roughly the same percentage increase as in 1985.

■ **Natural gas:** Residential prices should increase by less than 0.5% between 1985 and 1986—averaging out near \$6.20/mcf in 1986.

Energy tags: no sweat through '86

(% change, 4th qtr. '86 vs 4th qtr. '85)



Source: Department of Energy

Steel

CURRENT SITUATION: Fourth quarter orders are expected to reach only 19 million tons—on par with year-earlier readings. Inventory paring continues with another 100,000 tons to be cut from consumer stocks over the rest of the year. **This, plus low-priced imports, is keeping prices down**—with some flat-rolled volume buyers reporting \$15-25/ton off third quarter leads. A move to cut discounts on oil country tubular goods has failed.

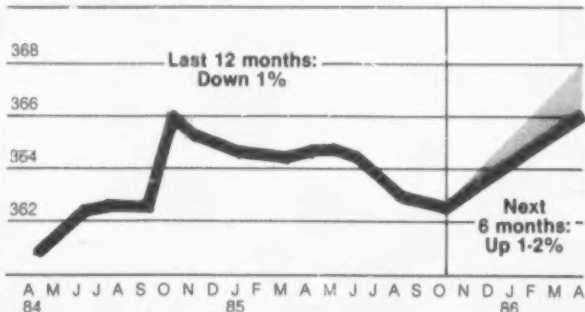
DEMAND: 1986 doesn't look too robust either, especially if GNP gains continue in the low 3% annual range. The big metal-consuming industries may not fare all that well. Auto sales could ease off from this year's 11 million units. Equipment outlays should begin to level off as operating rates remain under preferred levels. And big construction probably won't do much more than equal this year's level. **Even a modest drop in imports won't be enough to push domestic shipments more than a percentage point above estimated 1985 levels.**

SUPPLY: With this demand picture, decreasing metal usage in steel-consuming products, and this year's 75% operating rate, **leadtimes should continue to average in the 4-6 week range.** The absence of concern in current buyer and service center surveys is reassuring, as are latest steel industry investment intentions. One study suggests a 15% jump in capital outlays next year. Coming on top of 1985's even bigger advance, **this should keep capacity at about current levels.**

PRICE OUTLOOK: Today's supply/demand fundamentals make any significant near-term hikes unlikely. **The average U.S. transaction price should remain around \$450/ton—8-9% under pre-recession levels.** List prices might inch up over the next six months (see chart). But these will mostly be offset by continuing discounts and low-priced imports.

Steel mill products (list prices)

(Index: 1967 = 100)



Copper

The red metal continues to back and fill in the mid to upper 60¢/lb range, despite the fact that U.S. mines have cut back to nearly 45% of their potential. Behind the lingering easiness: 1) continued all-out production by state-owned Third World countries and 2) disappointing demand. Free World consumption should hit only 7.5 million metric tons this year—only 1.5% above 1984. And stocks, while continuing to drop, are still at above normal levels. There is little to suggest any sustained rally—the metal will be hard put to break the 70¢/lb barrier any time soon.

Aluminum

Ingot market prices remain below 50¢/lb. Bearish factors include 1) relatively slow demand growth (3% globally and only 2% in the U.S.), 2) continuing rises in Free World primary capacity (about a 4% advance is forecasted for 1986), and 3) buyer pressure on prices. On the latter score, there is plenty of excess sheet-rolling capacity here in the U.S.—so buyers are turning to tolling arrangements—buying ingot and jobbing out the rolling. Imports are also a price depressant—foil is the latest product line to feel overseas competition. On a more bullish note, if inventories continue to fall, ingot could move up into the 55-60¢/lb range by next spring.

Electronic equipment

This is still a growth industry despite widely ballyhooed competitive pressures in both semiconductors and many types of office equipment. Henderson Ventures, a major consulting firm in this field, projects a 10.7% overall rise this year. Even the computer and office equipment supgroups should post a 9.5% gain. Next year should bring some favorable advances too—a double-digit increase in military markets should push totals up another 8%. Some recovery in components is also likely in 1986 with 9.5% and 5.3% dollar gains expected in semiconductors and passive components.

1985 Electronic equip. demand

(% change from '84)

Communication	+13.7
Computers & office equip.	+9.5
Industrial & instruments	+8.0
Military	+14.0
Consumer	+5.1
Semiconductors	-18.6
Passive components	+1.5

Source: Henderson Ventures

Phthalic anhydride

Recent attempts to boost prices 3¢/lb have failed to hold. Result: Molton and flake types still go for 24¢ and 27¢/lb, respectively. Even this doesn't tell the whole story. Volume buyers are getting an additional 1-2¢/lb off quoted levels. Softness is being caused by lackluster demand—and there is no gain seen for 1985 as a

PW PREDICTS

Paper products

CURRENT SITUATION: Markets are beginning to bottom out with a weaker dollar cutting into import competition. Even so, current prices in some lines are under earlier levels. Linerboard is remaining as low as \$265/ton (-24% from last year). Corrugated has declined 5-10% in the last two quarters. Repeated attempts to boost newsprint have failed. But, previously shaky uncoated white paper is starting to firm.

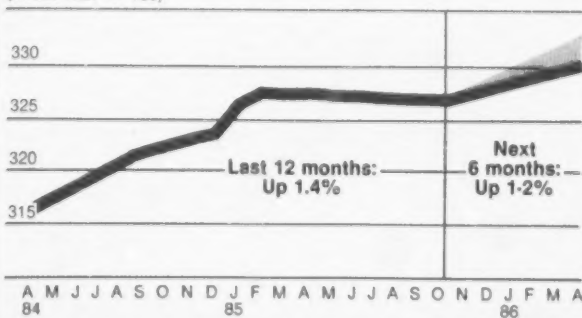
DEMAND: Domestic mill output is forecast to be off 1-1.5%. Bigger-than-average declines are expected for unbleached kraft paper (-7%), uncoated groundwood (-4%), and unbleached kraft linerboard (-3%). Corrugated boxes are expected to be short of last year's 270 billion square feet. Declining exports and rising imports are behind some of the drop-off projections. But overall consumption is expected decline by about 0.5%. Next year doesn't look bullish either—with overall production gains put at only 1-2%.

SUPPLY: These lackluster demand patterns and slowly rising capacity indicate why operating rates have been slipping. Here are average 1985 estimates (with 1984 rates shown in parenthesis): Uncoated groundwood—88% (92%), uncoated free sheet—90% (91%); coated paper—95% (97%), unbleached kraft paper—94% (97%), unbleached kraft linerboard—93% (97%). These rates should stay at current levels as next year's 1-2% production increase is balanced out by new demand.

PRICE OUTLOOK: Look for restrained advances in light of more-than-ample capacity. A somewhat weaker dollar could add buoyancy, but this should be offset by rising overseas capacity. But it will be some time before linerboard moves back up to the \$300/ton level. Only about a 3% increase is expected for corrugated over the next 6-12 months.

Paper and product prices

(Index: 1967 = 100)



whole. Moreover, little near-term price firming is anticipated as producers continue to jockey for share of the 840 million lb expected to clear the market this year (which amounts to only 76% of the industry's rated capacity).

Zinc

The plating and alloying metal is on the ropes as producers give 2-2.5¢/lb discounts off recently lowered list levels. Dealer prices are even lower, and European producers have dropped another \$50/mt off their asking prices. U.S. consumption looks like it will drop this year. Given all of the above developments, it is hard to see prices moving above current levels over the next few months. On the other hand, some bounceback into the low 40's (still depressed by historical standards) is possible by early 1986 if demand for autos (the metal's major market) holds up and if recent mine cutbacks are maintained.

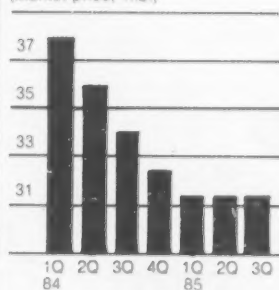
High density polyethylene

New boosts ranging up to 5¢/lb could be in trouble. Market quotes are expected to rise only slightly above recent depressed levels (28-30¢/lb for the injection molding grade and 32-35¢/lb for the blow molding grade). While the industry will operate at a high 95% level (demand will rise 9%), this masks the lower operating rate of

a few producers including market incursions by swing plants that make both LLDPE and MDPE. Many of these latter producers have been shifting the composition of their output to MDPE, thus softening this market too.

High-density polyethylene

(general purpose molding grade)
(Market price, ¢/lb.)



Sulphur chemicals

Sulphuric acid prices have moved up anywhere from \$5-10/ton over the past few months. Blame it on higher labor, transportation, and material costs—with sulphur alone up \$30/ton since the last price hike a few years ago. Supplies have also been shaved as byproduct acid production drops—reflecting reduced metal-smelting operations. On the other hand, a \$20/ton boost in another sulphur product (carbon disulphide) has failed to hold up because of poor demand from rayon and cellophane users.

Computers

The PC market is again beginning to soften. Signs of the times: 1) IBM is now offering 11% dis-

PW PREDICTS

Copiers

Choosing an office copier isn't easy these days—with more than 200 plain-paper types on the market. Making the job even more difficult is the fact that vendors are making them with many advanced functions. Some of the new developments outlined in *Management World's* fifth annual copier report:

■ **Digital scanning and laser imaging.** Originals are scanned with the image then converted to digital signals which are then transmitted to a laser printer where the image is reproduced on plain paper. The big plus is the potential for future links to other office automation products.

■ **Amorphous silicon drums.** They have a hard surface that increases reliability and the possibility of running 500,000 copies before being replaced.

■ **Increased editing functions.** The original image can be manipulated without destroying the original. This amounts to what can best be described as a form of electronic cutting and pasting.

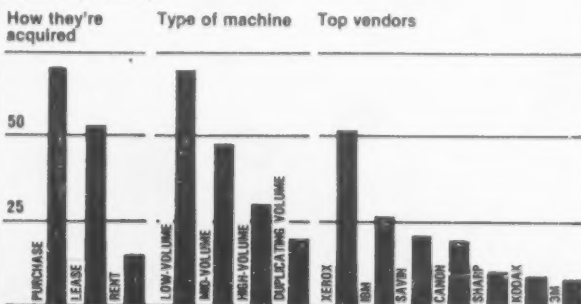
■ **Improved color options.** Vendors are offering copiers with more than one color resident in the machine at any given time. This allows the operator to change toner colors by simply pressing a button.

In addition, features once found only on higher volume machines, such as multiple reduction and enlargement modes, document feeders, sorters, and large-capacity paper supplies—are now prevalent in all volume ranges.

The new study also includes a survey of some 152 users. And here, too, the findings are significant: 1) outright purchase is still the most popular acquisition approach (say 72% of the respondents), 2) some 30% use high-volume copiers, with 20% opting for the even more expensive duplicating volume type, and 3) Xerox is still the most popular maker—followed by IBM, Savin, Canon, Sharp, Kodak, and 3M.

Today's copier market

(% of respondents)



Note: Respondents permitted to check more than one choice.
Source: Administrative Management Society

counts on some PC-XT models to corporate customers, 2) Corona Data Systems has halved the price of its IBM compatibles, and 3) Apple Computer is not only offering rebates of \$150-250, but is promising a spectacular Christmas promotion. Also, IBM's PC-AT (still at its original \$5,795 list price) may be ripe for a price cut—as supplies increase and competing clones come on the market.

Lead

Some modest firming is possible as the battery buying season gets underway. Another positive factor: Asarco, faced with snug concentrate supplies, will indefinitely close its El Paso smelter. But any advance will be quite modest as Free World use lags year-ago levels and inventories remain high. It is hard to see prices moving much above 22-23¢/lb—and they could easily fall again by next spring as battery demand slows again. Nor is the long-term U.S. battery outlook all that bullish. Less lead use per battery will partially offset small unit gains. Domestic battery use of the metal should rise only .5%/year through the rest of the decade.

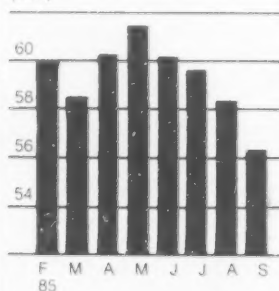
Cotton

Record harvests, both here and abroad, could drop tags below the already depressed mid-to-

upper 50¢/lb range. It's a far cry from the 80¢/lb and higher quotes of just 18 months ago. Aside from the bumper crops, another price depressant has been disappointing U.S. consumption. Domestic mills will take only 5 million bales of this year's estimated 13.7 million bale crop. Even if you add the 4 million bales likely to be exported, that still leaves a huge 4.7 million bales of excess—equivalent to almost a full year's consumption.

Cotton prices

(¢/lb.)



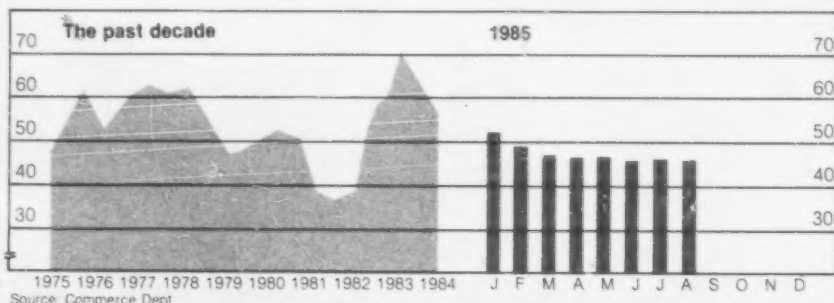
Lumber

Somewhat lower supplies are firming up prices. Right now, popular 2x4s are going for about 10% more than a year ago. Behind the advance: The recent closing of 5% of the nation's lumber capacity and an even larger 7% of its plywood potential. And while some winter fallback can't be ruled out, the betting is that 1986 tags will be even higher. Specifically, if housing starts can be maintained at the current 1.7 million unit annual pace, framing lumber will average out near \$220-225/mbf for 1986.

BUSINESS DATATRAK

NAPM business barometer

Based on five indicators (employment, inventories, new orders, production, vendor performance)



Source: Commerce Dept.

KEY ECONOMIC TRENDS

A little lift, but some drift

Count on the economy showing a bit more life with real GNP rising at about a 3% annual rate through early 1986—a lot better than the 1% gain posted in the first six months of this year.

Positive factors working against any recessive trends include 1) still low inventory-sales ratios, 2) interest rates that look to remain well under year-ago levels, and 3) continuing consumer confidence.

But it's a mixed picture. Manufacturing, for example, should continue to disappoint, as factory sales of both hard and soft goods remain essentially unchanged from late winter and early spring levels. If the NAPM Business Survey findings are any indication, this quiet picture is likely to continue as the widely monitored NAPM Business Barometer (see

chart) holds in the relatively low 47 range.

The capital goods sector, viewed separately, isn't all that exciting either. When NAPM asked its members if they had revised plant and equipment spending, 32% said they cut original plans—twice as many as said they had revised upward.

That's not to say the market is about to fall out of bed. Capital goods orders are still coming in at a healthy clip, thus assuring that this key area will continue as a basically positive factor.

It should be noted, however, that all of the capital goods lift these days is coming from the military. Machinery orders from civilian activities are doing little more than marking time.

Construction is doing well with awards near all-time highs, suggesting that heavy construction spending will continue for at least another 3-6 months.

And housing is sharing in this gain. Permits (a leading indicator of housing starts) are still coming

in at a healthy 1.7 million annual rate and sales of existing homes have been setting a brisk pace in recent months.

Consumer spending is also likely to remain at respectable levels. A new Michigan consumer attitude survey finds that spending on cars and other big-ticket items (as well as housing) is likely to stay high into early 1986.

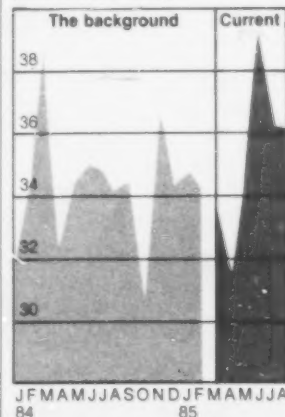
But the auto prediction may be somewhat optimistic, particularly since Detroit has removed its attractive 7.7% financing incentives.

Also on a less positive note, industrial distributor sales have edged lower over the past month or two (see chart). While admittedly this is a volatile series, the decline doesn't augur well for any significant gains in the overall factory sector.

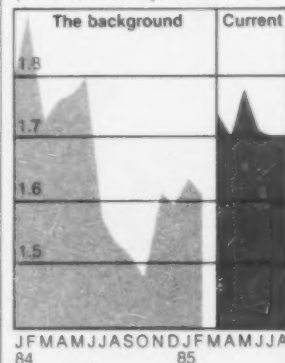
In fact, latest industrial production forecasts call for only 2-2.5% annual rates of increase through mid-1986. Viewed from another perspective, it suggests that quarterly gains will only be in the

Leading indicators

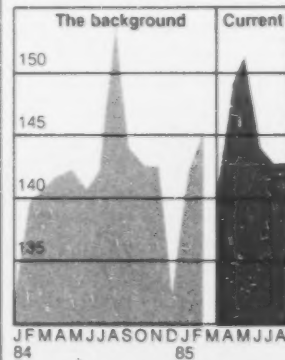
1. Capital goods orders (Billions \$, seas. adj.)



2. Housing permits (Millions, seas. adj., annual rate)



3. Industrial distributor sales (Index: 1967 = 100)



BUSINESS DATATRAK

0.5% or slightly higher range, hardly the harbinger of a booming economy.

Imports remain a problem. Even with the falling dollar, the U.S. trade deficit this year is likely to go over \$130 billion—with textiles, machinery, and autos all continuing to contribute to the overall red ink figure.

But even here things could start to get better as the 10% decrease in the dollar since early 1985 begins to slow imports and makes our exports more attractive.

News from the fleet beat for 1986 models

It's fleet buying season again and here's what some of the the major fleet car leasing outfits are recommending, based on a new survey by the National Association of Fleet Administrators:

■ **Individual make:** Recommendations here are a matter of what you are looking for—price, image,

value, etc. The accompanying box itemizes the specifics of one set of alternatives based on a Peterson, Howell & Heather, Baltimore, compilation.

■ **Replacement:** Avis feels this should generally be early in the model year, preferably in the Autumn (October, November) and/or Spring (March/April) to minimize depreciation.

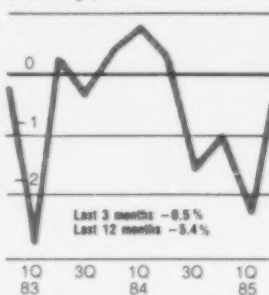
■ **Mileage:** Gelco believes that vehicles should be replaced at 50,000 miles. This recommendation, according to the firm, is based principally on the disadvantage of the penalties assessed on vehicles with higher mileage.

■ **Car size:** U.S. Fleet Leasing notes that 60% of its purchases are in the mid-size range. This category, says the firm, represents the best business compromise between economy and roominess.

■ **Model and optional equipment:** LMV Leasing recommends mid-size 4-door, front wheel drive cars. Options should include both cloth interior, cruise control, air conditioning, power brakes,

Import prices edge down again

Overall trend
(% change)



Source: Bureau of Labor Statistics

Best buys

(% drop over past year)

Oil products	-7.4
Natural gas & LNG	-19.1
Chemicals	-5.6
Tires	-2.0
Textiles	-2.0
Steel	-3.0
Nonferrous metals	-14.5
Fasteners	-6.4
Metalworking machinery	-3.4
Pumps & compressors	-9.7
Mech handling equipment	-5.0
Office machines	-7.3
Electrical machinery	-8.0
Electronic components	-14.1

power steering, power door locks, rear window defrost, and AM/FM stereo radio.

Another dip in offshore quotes

Import quotes were down another 0.5% (2% at annual rate) in the latest reported quarter—indicating that the weakening dollar—off more than 10% from its peak earlier this year. Compared to a year earlier, import price declines have been precipitous at 5.4%.

But Washington price watchers say these tags should soon be bottoming out. As one spokesman puts it, "The dollar impact on prices is usually behind by anywhere from 9-18 months. I would expect fewer bargains by 1986."

Meantime, however, the import price weakness remains pretty much across-the-board with individual product areas (*vis-a-vis* the previous quarter) shaping up something like this:

■ **Crude materials:** Large declines were noted for metal ores (-3.1%), pulp

and waste paper (-4.3%), and crude rubber (-1.5%). All three categories are down more than 14% over the last year.

■ **Fuels:** Import tags dropped for the fifth consecutive quarter, with the latest 3-month slippage of 2.4% due largely to declining petroleum products.

■ **Chemicals:** Big declines over the last quarter were noted in manufactured fertilizers (-13%) and fats and oils (-14.7%).

■ **Intermediate products:** Substantial slippage was noted in textiles (-2.2%) and nonmetallic mineral manufactures (-1.6%), with smaller declines noted for steel, rubber manufactures, wood products, and paper and paperboard products.

■ **Machinery and transport equipment:** Overall averages bucked the trend here by rising 0.9% as increases were recorded for metalworking machinery (+5.0%), general industrial machinery (+2.1%), and electrical machinery (+2.2%). But communications equipment and office machinery continued to fall.

1986 model fleet buying choices

■ **Best value** (embracing a combination of image, fuel economy, safety, power, and resale value): Chevrolet Celebrity CL, Dodge Lancer, Ford Taurus, Oldsmobile Calais, Plymouth Caravelle, Pontiac 6000.

■ **Best price** (priced about 12% under "best value" category, for those where "up-front" costs are critical): Chevrolet Cavalier, Dodge Aries, Ford Tempo GL, Mercury Topaz GL, Plymouth Reliant.

■ **Best image** (cars offering employees recognition, status, or inducements to employment): Buick Century Custom, Chrysler LaBree GTS, Ford Thunderbird, Mercury Sable, Mercury Cougar, Oldsmobile Cutlass Ciera LS, Pontiac 6000 LE.

■ **Full size cars** (where extreme service conditions mandate): Chevrolet Caprice, Ford Crown Victoria S.

■ **Best mpg** (excellent fuel performance along with reliability and resale value): Chevrolet Cavalier CS, Dodge Omni, Ford Escort, Mercury Lynx L, Plymouth Horizon, Pontiac Sunbird, Renault Alliance DL.

Source: Peterson, Howell & Heather, as reported in the National Association of Fleet Administration Bulletin.

BUSINESS DATATRAK

CURRENT PRICES

Summer ends on pleasant note

Summer has ended on a rather pleasant note. Uncle Sam's overall producer price index actually declined 0.2% over the latest 30-day period.

More significant, current levels are on par with year-earlier ones—further

confirming that inflationary pressures are non-existent. Indeed, for some PMs prices could actually be down. That is because Government figures don't always pick up the big discounts being offered these days to nail down volume orders.

Equally encouraging is the fact that the current softness is virtually across the board. Gasoline, diesel fuel, natural gas, and crude oil prices all declined over

This month's breakdown

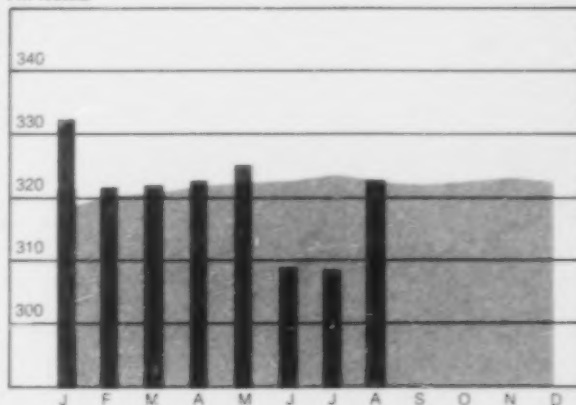
	Latest level (Aug.)	% change from: Month ago	Year ago
Bearings	354.2	0.2	2.8
Bolts, nuts, etc	277.6	-0.1	0.3
Chemicals, inorganic	300.8	-0.7	2.6
Chemicals, organic	358.6	2.2	-1.3
Concrete products	322.8	0.5	3.7
Corrugated cartons	266.6	-1.4	-0.2
Cutting tools, small	286.0	0.4	2.1
Electric lamps (bulbs)	344.6	0.1	4.0
Electronic components	197.6	0.1	1.7
Fans and blowers	359.7	0.0	2.4
Foundry and forge products	364.3	0.2	0.4
Fuel oil (residual)	930.2	3.3	-17.3
Furniture, commercial	309.3	0.2	3.7
Gasoline	575.2	-2.2	3.8
Glass, flat	226.4	1.6	3.1
Glass containers	381.5	0.8	4.2
Gypsum products	338.1	-0.1	-6.0
Hand tools	375.2	0.1	4.1
Hand tools, power driven	233.6	0.1	4.2
Industrial furnaces	385.4	0.1	2.6
Integrating and measuring instruments	232.5	0.4	1.4
Internal combustion engines	347.2	0.0	3.0
Lubricating oil	N.A.	N.A.	N.A.
Lumber millwork	313.9	0.0	2.2
Material handling equipment	295.8	0.1	1.9
Metal containers	357.9	-0.1	1.7
Metal mill shapes (nonferrous)	308.3	0.3	-4.5
Metal tanks	306.1	0.2	0.1
Motors and generators	351.2	-0.2	3.2
Motor trucks	293.7	0.1	4.4
Office and store equipment	154.9	0.0	0.8
Paperboard	266.3	-2.5	-6.6
Paper boxes and shipping containers	268.9	-1.6	1.8
Paper office supplies	239.1	0.2	-1.8
Paint	277.1	-0.5	0.3
Plastic resins	305.2	-0.9	-1.6
Precision measuring tools	263.2	0.0	3.9
Pumps and compressors	357.0	0.2	2.4
Refractories	372.2	0.0	2.9
Rubber belts and belting	337.6	-4.3	-3.2
Scales and balances	229.2	-0.1	-1.3
Steel products	363.4	-0.1	-1.4
Switchgear	278.0	0.1	-0.1
Textiles, synthetic fibers	155.0	-0.7	-3.1
Textiles, gray fabrics	150.2	-0.9	-2.7
Tires and tubes	236.7	-0.7	-2.9
Transformers and power regulators	232.3	0.5	1.3
Welding equipment	291.7	0.0	1.2
Wire and cable	205.5	0.7	1.6

Industrial prices

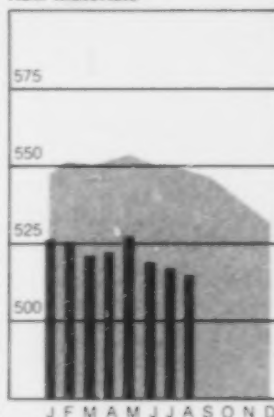
(Index: 1967 = 100)

1984 ■ 1985 ■

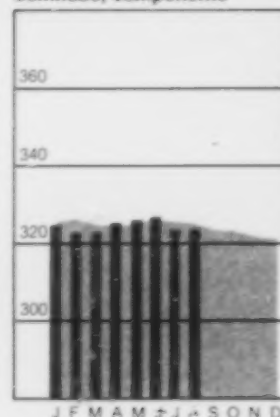
All items



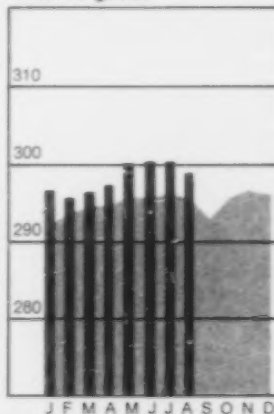
Raw materials



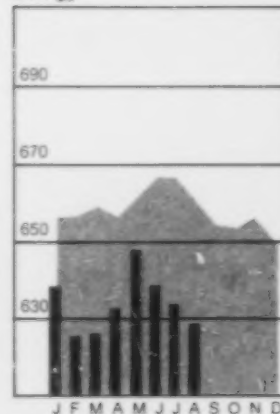
Semifabs, components



Finished goods



Energy



Source: Bureau of Labor Statistics

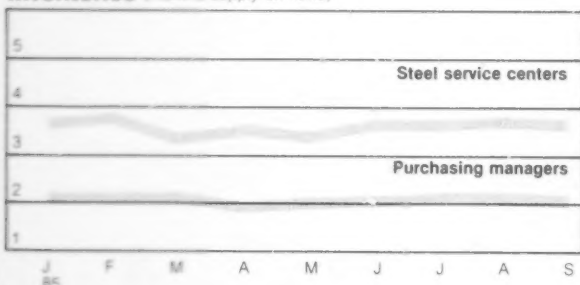
BUSINESS DATATRAK

Steel

Operating rates

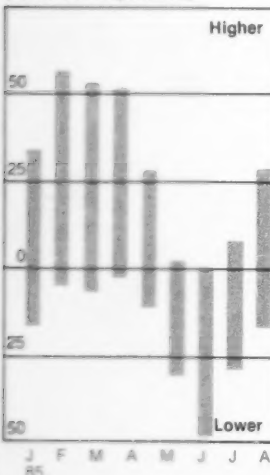


Inventories (months supply on hand)

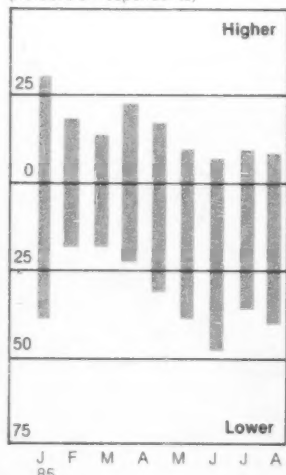


Demand

Service centers incoming orders
(Percent of respondents)



Steel buyer purchase
(Percent of respondents)



Import prices (compared to domestic)

Steel buyers

Above	4%
Same	18%
Slightly below	67%
Substantially below	11%

Service centers (carbon)

Above	0%
Same	13%
5-10% below	77%
10-20% below	10%
Over 20% below	0%

Source: Steel Service Center Institute, NAPM Steel Buyers Committee

the last month. Only residual fuel prices showed any upward tendencies.

Metals also remain quite shaky. Declines have hit steel, aluminum, lead, and zinc.

A similar situation is noted in paper where paperboard fell another sharp 2.5%, dropping these quotes more than 6.5% from year-ago levels. And corrugated cartons, taking their cue from the paper board decline, also dropped again (by another 1.5%).

Also on the soft side were construction materials (sparked by declines in cement and plastic building prices), plastic resins, wood pulp, synthetic fibers, grey goods, inedible fats and oils, and rubber belts and belting.

Inorganic chemicals were down too—although this tended to be offset by newly posted increases in organic chemicals.

Capital goods were about the only major product group to advance. But the increase was quite small (0.2 or about 2.5% at annual rate)—as boosts were recorded for pumps and compressors, printing trade machinery, and integrating and measuring instruments.

STEEL SCENE

PMs and SSCs differ on outlook

The nation's steel distributors are turning a bit more optimistic about near-term prospects.

A fairly substantial 29% of those queried in the latest Steel Service

Center Institute survey, for example, see an increase in incoming orders over the last three months of this year. That's the first time since April that those anticipating increases outnumbered those braced for declines.

Viewed from another perspective, some 84% of the surveyed warehouses now expect incoming orders to stay the same or increase—up significantly from the 51% and 72% figures of the previous two months. If true, it means another banner year for these steel middlemen.

Behind all this optimism is the increasing emphasis on just-in-time inventorying—a trend which helps funnel a greater percentage of the overall steel business into service centers.

On a less bullish note, industrial buyers aren't nearly as optimistic as their distributor brethren. Only 9% of these PMs see a step-up in metal purchases—about the same number as the past few months and far under the 50% who anticipate further retrenchment.

Inventories, meantime, are edging fractionally lower. But both service centers and buyers are still not satisfied. The majority of both groups (58% of the distributors and 52% of the buyers) saying current steel stocks are too high.

A substantial number of both groups, as might be expected, are therefore planning on further stock retrenchment—54% and 48% for service centers and buyers.

This could mean as much as another 100,000

BUSINESS DATATRAK

tons reduction in their combined holdings over the next three months. Add in earlier paring, and buyers alone will probably end the current year with as much as a half million less tons than year-earlier levels.

One reason for this—in addition to faster deliveries—is the continuing ready availability of all major items. In fact, virtually all of the distributors and buyers queried see no supply problems through the year end and into early 1986.

Another interesting finding of both surveys: Import bargains are still common, despite almost a year of import quotas. Some 87% of queried steel service centers say imported carbon steel is under comparable domestic levels. In the case of stainless, the figure is an even higher 94%—with nearly one out of five putting the price advantage in the 11-20% range.

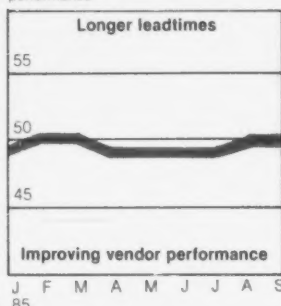
As for steel buyers, some 78% note under comparable domestic level availability—with 11% dubbing the price break as “substantial” (compared to the less than 5% noted for the previous two months).

Nor do these same buyers expect to be less dependent on foreign steel over the next six months. Implication: Imports are likely to stay high, despite steel quotas. Right now, for example, the betting is that as much as 20 million tons of metal could enter the country in 1986—not that much under this year's estimated 22.5-23 million ton level.

Monthly procurement status report

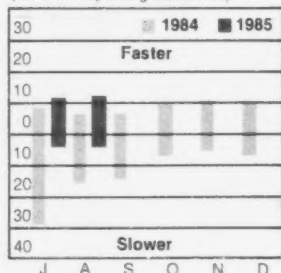
Leadtime index

A “diffusion” index based on 158 key commodities. Above “50” indicates a tendency for leadtimes to stretch out. Below “50” suggests improving vendor performance.

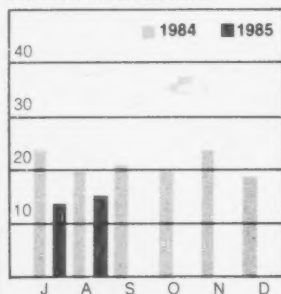


Delivery performance

(Percent reporting deliveries)

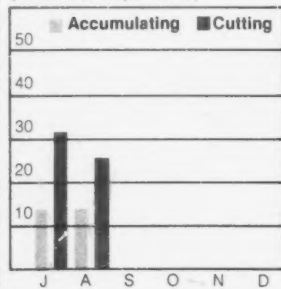


Forward commitments



Inventory strategy

(Percent of respondents)



Source: NAPM

PROCUREMENT STATUS

At ease, there's no squeeze

Still no problems of any consequence on the industrial procurement front, despite the modest pickup in business that seems to be shaping up for the last few months of this year.

That's pretty much the picture no matter what product line.

Behind all this easiness: plenty of excess capacity. At latest report, the typical U.S. manufacturing establishment was operating at only around 80% of capacity, with durable goods falling a percentage point or so below this overall average.

That's why leadtimes have remained at their low levels in recent months. Where there have been some isolated stretchouts, they have been offset by shrinkages in other areas.

Also suggesting an easier situation are continuing reports of faster deliveries by vendors. The NAPM Business Survey Committee, monitoring this on a month-by-month basis, reports that 13% of those queried have recently noted speedups—outnumbering those noting slowdowns by a 3:1 margin. That's the widest speedup-slowdown gap since the closing months of the 1982 recession.

Nor is this problem-free purchasing environment likely to change anytime soon. Operating rates, for example, should stay at about where they are now, as small increases in production are balanced out by new capacity coming on stream. Add in projected gains in imports, and virtually all the PMs queried by *PW* now project a continuation of the current buyers' market—not only through the end of the year, but probably well into 1986.

Leadtimes and availability

Chicago: Special brass and copper rods are out to 5 weeks because of U.S. plant closings. Copper and brass tube has jumped 1/2 week (to 1). PVC resins have come in (to 3) and softwood sheathing (to 1-2). Holding steady are steel, electronic components, and MRO items.

Cleveland: Improvement in maintenance paint (down to 2 weeks). Hardwood lumber has stretched (to 3). Unchanged: waterproof papers (5-6), plastic shrink film (3), corrugated boxes (2-3), folding boxes (2-3), 2-ply fiber drums (2-3), polyethylene film (3) and aluminum (10-12).

Los Angeles: Several items have moved in: grey iron castings (6-8), brass castings (4-6), pumps (10-12), custom seals and gaskets (4-6). Unchanged: galvanized steel (12-14) and aluminum tubing (6-8).

Houston: Centrifugal compressors are in to 10-12 months, as are pumps (4-7 months), and high pressure heat exchangers (7-10 months). Holding firm (in weeks): high-density polyethylene and polypropylene (2-3), galvanized steel coils (3), and plastic bottles (4).

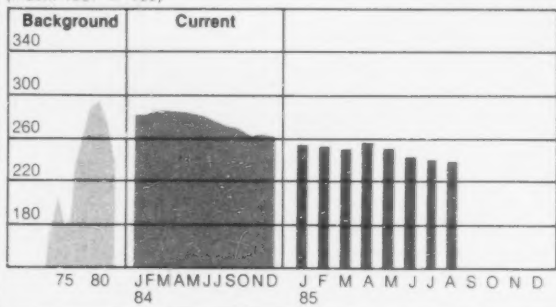
Philadelphia: Hex-shaped stainless bars are in (to 14 weeks). Other steel items are unchanged. Leads (in weeks): carbon round coil (8-10), aluminum bar, sheet, and extrusions (4), high-temp metals (8-10), copper and brass products (4-5), and standard fasteners (stock to 4).

Pittsburgh: A quiet month here. Typical weekly leads: Paper bags (4-6), corrugated boxes (3-4), wirebound boxes (4-5), drums (1), lumber (3-4), steel strapping (2-3), maintenance paint (5), polyethylene (5), PVC (6), alloying metals (2), and copper mill products (6).

BUSINESS DATATRAK

Raw material price barometer

(Index: 1967 = 100)



Latest month 240.0
Month before 240.7
Year ago 275.6

Latest spot market prices

FERROUS METALS

	Latest price	Previous month	Year ago
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	23.90	23.90	24.40
Steel, bars, divd. Phila., cwt., merchant quality	23.95	23.95	23.95
Steel, bars, Pitts., cwt.	23.95	23.95	23.95
Steel, bars, C.R., Pitts., cwt.	29.25	29.25	29.25
Steel, plates, Pitts., cwt.	23.25	23.25	23.25
Steel, plates, H.R., Pitts., cwt.	23.25	23.25	23.25
Steel, sheets, C.R., Detroit, cwt.	27.10	27.10	27.10
Steel, strip, C.R., Chi., cwt.	36.18	35.30	35.30
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65

NONFERROUS METALS

Aluminum, ingot, lb. (market place)	0.475	0.475	0.495
Antimony, in alloy, lb.	2.00	2.00	2.00
Beryllium-copper, cost ingot, lb.	5.35	5.35	5.20
Brass, red, 85%, [sheet], lb.	1.29	1.31	1.26
Brass, yellow, [sheet], lb.	1.24	1.26	1.21
Cadmium, ton lots, lb.	1.00	1.00	1.55
Copper, electrolytic, wire bars, refd., lb.	0.66	0.68	0.65
Copper sheet, over 24 in., lb.	1.35	1.40	1.35
Lead, common, N.Y., lb.	0.190	0.190	0.260
Magnesium, pig ingot, [99.8%], lb.	1.48	1.48	1.48
Mercury, 20 fl. lots, N.Y., fl.	317.00	317.00	308.00
Molybdenum, oxide, dealer lb.	3.15	3.09	2.74
Nickel, cathode, dealer lb.	2.30	2.35	2.21
Platinum, dealer, oz.	318.00	263.00	226.00
Silver, N.Y., oz.	6.04	6.22	7.20
Tin, Straights, N.Y., lb.	5.95	6.18	6.20
Zinc, Prime West, East St. Louis, lb.	0.41	0.41	0.48
Zinc, die casting alloy, No. 3, lb.	0.485	0.485	0.545

PAPER

Uncoated book #3 offset, ton	850.00	850.00	850.00
Watermarked bond, ton	985.00	985.00	985.00
Gummed sealing tape, carton	16.22	16.22	16.02
Boxboard, mach. clay ctd. recycled sheets 80 bright, .016, ton	495.00	495.00	495.00
Wrapping paper, std. distributor cost, kraft, basis wt. 50 lb., roll	28.00	28.00	28.00
Kraft linerboard, 42 lb., unbleached, ton	290.00	290.00	350.00

TEXTILES

Burlap, 10 oz., 40", N.Y., yd.	0.258	0.292	0.359
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.04	1.04	1.04
Cotton middling, 1", N.Y., lb.	0.566	0.568	0.622
Printcloth, 48", 80x80, N.Y., spot, yd.	0.62	0.60	0.77
Army duck, 37", 13 oz., yd.	1.70	1.70	1.91
Blended printcloth, 64", 78x54, yd.	0.680	0.630	0.770
20s combed yarns	1.95	1.95	2.10
Wool tops, N.Y., lb.	3.60	3.60	3.60

Latest price Previous month Year ago

CHEMICALS

Acrylonitrile, tanks, lb.	0.455	0.455	0.455
Ammonia, anhydrous, fertilizer, wholesale, tanks, ton	210.00	210.00	210.00
Benzene, petroleum, tanks, Houston, gal.	1.47	1.47	1.28
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	0.58	0.58	0.58
Formaldehyde, USP, 37% [12% to 15% meth.], tanks, lb.	0.106	0.106	0.106
Glycerine, synthetic, tanks, lb.	0.91	0.91	0.81
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	0.52	0.52	0.54
Naphthalene, crude, tanks, lb.	0.22	0.22	0.22
Phthalic anhydride, tanks, lb.	0.270	0.270	0.305
Polyethylene resin, low density liner film grade (market price), lb.	0.280	0.280	0.350
Polypropylene, homopolymer grade (market price), lb.	0.350	0.350	0.400
Polystyrene, general purpose grade (market price) lb.	0.360	0.360	0.390
Polyvinyl chloride, pipe grade (market price), lb.	250	270	260
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	0.30	0.30	0.35
Sulphur, crude, ex-terminal, Tampa, Fla., lb.	157.50	157.50	147.50
Sulphuric acid, 66%, commercial, tanks, ton	66.86	56.85	56.85
Titanium dioxide, anatase, reg., carlots lb.	0.69	0.69	0.69
Xylene tanks, gal.	1.36	1.36	1.33

BUILDING MATERIALS

Lumber, 2x4 fir, mbf, cl	322.35	327.75	312.75
Lumber, 2x2, pine, mbf, cl	289.85	304.15	298.15
Plywood, plyform, 1/4", mst, cl	583.10	581.50	576.80
Plywood, 1/4", mst, cl	382.45	383.60	373.05
Cement, bulk, ton, tl	64.91	65.44	63.75
Sand, ton, cl	6.35	6.32	6.07
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd.	47.99	47.99	46.87
Crushed stone, 1 1/2", ton, cl	7.80	7.75	7.27
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl	0.81	0.81	0.78
Gypsum sheathing, 1/2"x1"x8", mst, tl	207.94	202.29	205.57
Brick, common, per thousand, tl	183.70	183.70	173.08
Asphalt paving, AC-20	176.97	176.36	169.53
Concrete sewer pipe, 12", prem. joint, per foot, cl	7.13	7.21	7.04

FUELS

Fuel oil, No. 6 or Bunker C, Gulf, bbl.	22.25	21.25	26.25
Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller	28.75	24.75	30.50
Gasoline, 91 oct., reg., Los Angeles, rack, gal.	0.785	0.740	0.740
Gasoline, 94 oct., reg., Chi., tank car, gal.	0.774	0.813	0.796
Heating oil, No. 2, Chi., bulk, gal.	0.768	0.685	0.795
Heating oil, No. 2, N.Y., bulk, gal.	0.770	0.720	0.808
Heavy fuel, PS 400, Los Angeles, rack, bbl.	26.50	26.50	26.50
Jet kerosene, gal.	0.803	0.728	0.780
LP-Gas, propane, Okla., tank cars, gal. [incl. discount]	0.320	0.335	0.410

SCRAP MATERIALS

Steel, No. 1, hvy., divd., Pitts., ton	75.00	77.00	87.00
Steel, No. 1, hvy., divd., Chi., ton	71.00	73.00	80.00
Copper, No. 1, East, wholesale buy, divd., lb.	0.550	0.555	0.550
Copper, No. 2, East, wholesale buy, divd., lb.	0.470	0.475	0.470
Brass, red, East, wholesale buy, divd., lb.	0.510	0.515	0.515
Brass, yellow, East, wholesale buy, divd., lb.	0.330	0.325	0.360
Alum., old sheet/cast, E., wholesale buy, divd., lb.	0.295	0.280	0.340
Alum., mixed clip, E., wholesale buy, divd., lb.	0.325	0.315	0.360
Zinc, old, East, wholesale buy, divd., lb.	0.110	0.110	0.200
Lead, clean solids, East, wholesale buy, divd., lb.	0.110	0.105	0.165
Paper, No. 1 mixed, dir., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dir., Chi., ton	10.00	10.00	30.00
Paper, old corrug. box, dir., N.Y., ton	8.00	8.00	25.00
Osaburg cuttings, dir., f.o.b. N.Y., lb.	0.09	0.09	0.12
White wipers, No. 1, dir. buy, f.o.b. N.Y., lb.	0.19	0.20	0.37

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]

S. African unrest jeopardizes supply of strategic metals

The ground rules for strategic metals procurement are changing—and changing fast—due to the political unrest and strife in South Africa over its policy of Apartheid.

The seriousness of the situation cannot be underestimated. As the chart shows, we are highly dependent on South Africa for several materials of critical importance to the steel, aerospace, defense, and electronics industries.

Note that this dependency is not so much on gold (the metal most associated with South Africa) as it is on such other metals as platinum, palladium, rhodium, chromium, manganese, vanadium, and even cobalt (which has to be moved out of Zambia by S. African transport).

A recent study, for example, found that over a three-year period, 55% of our chromium, 49% of our platinum, and 44% of our vanadium came from the Union of South Africa.

This isn't a problem only for the U.S.; it affects the entire Free World. S. Africa produces 88% of

The South African Metal Impact

U.S. dependence on S. Africa

Chromium	55%
Platinum	49%
Vanadium	44%
Cobalt	61%
Manganese	39%

Source: Commerce Dept. office of Strategic Resources

Free-World dependence on S. Africa

Platinum	78%
Palladium	32%
Chromium	30%
Manganese	40%
Vanadium	62%
Antimony	25%

Source: Shearson Lehman Bureau

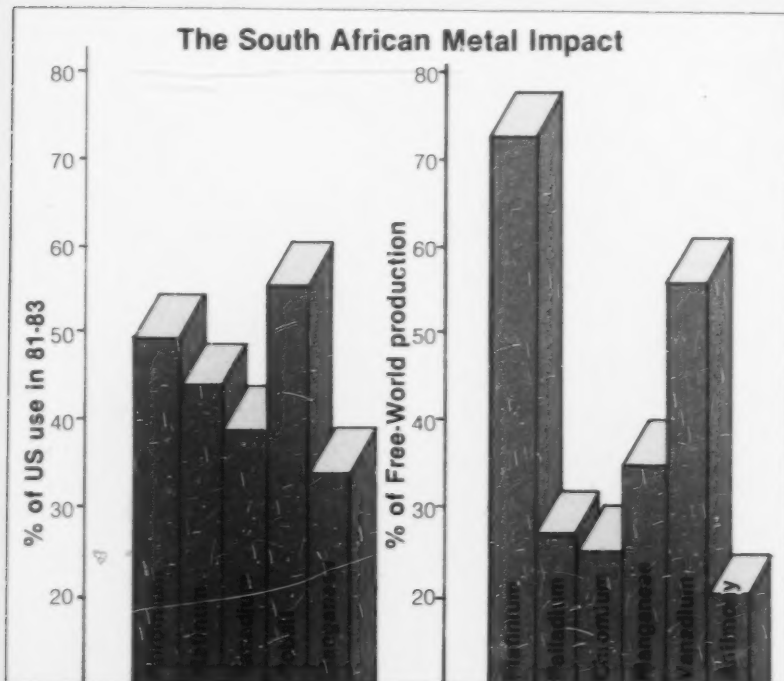
the western world's rhodium, 78% of its platinum, 62% of its vanadium, and 45% of its manganese.

Not surprisingly, Free World prices have suddenly begun moving up after years of bargain-basement selling. Substantial increases have hit virtually all of the so-called platinum-group metals. The only reason some of the other metals haven't been impacted yet has been the huge inventory gluts in these markets.

South African problems will probably force a reappraisal of our overall stockpile goals. A few months ago, the official stance was to cut tonnages. While things are still too fluid to discern any definitive changes at this point, reports coming out of Washington indicate that all projected disposals of strategic materials are now on hold.

One metal analyst told *PW* that price firmness is likely to continue for these metals for some time to come, even if the current conflicts in South Africa can somehow be managed. In his words, "While I don't rule out some near-term corrections, the political differences in South Africa are just too fundamental to allow any return to old pre-summer price levels."

These important metals will certainly bear close watching in the months ahead—contrasted to still-glutted base metals such as copper, aluminum, lead, and zinc. If things worsen in that country, further run-ups will be surely in the offing. **PW**



Source: Commerce Dept., office of Strategic Resources

Source: Shearson-Lehman Bros.

In this section

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Computer puts bearings in a box.....PW10

Smart buying leads to new container.....PW11

Producer prices: three acts, same scenario through 1987

Lackluster economic growth will hold the lid on price increases. Overall industrial producer quotes should rise less than 1% this year and only about 2.5% in 1986.

The new projections, contained in Data Resources Inc.'s (DRI) latest *Cost Forecasting Service Report*, also suggest moderation in virtually every single commodity area detailed in the table alongside. Note, for example, that of the 25 sectors covered, not one shows a price increase in excess of 7% over the next four quarters.

DRI also cites soft energy tags and labor restraint for these optimistic numbers. On the labor front, for example, DRI estimates hourly

earnings will move up only 3.2% this year, 4.1% in 1986, and 5.1% in 1987. And even these will be tempered with about a 1.3% average annual increase in productivity.

But as suggested, these advances will be manageable, with individual sectors over the 1985-87 period shaping up along these lines:

■ **Crude oil:** Combined growth restraint, excess global production capacity, and the resistance by non-OPEC nations to limit their output should cause sliding prices through the first quarter of 1987.

■ **Natural gas:** As oil tags fall, gas will be increasingly pressed to remain competitive. Result: Prices will decline 2.5% next year after

slipping 1.7% in 1985. But firming crude oil and a stronger economy should lead to a slight 0.5% increase in gas by 1987.

■ **Electricity:** Relatively flat coal costs and declining interest rates through mid-1986 will help ease utility costs and relieve electricity price escalation. The producer price index for electricity should advance only at only a 2.9% rate in 1986.

■ **Chemicals:** Thanks to weak cost pressure over the next few years, producers will not seek sizable price increases despite rising output levels. The producer price index for industrial chemicals will therefore advance at annual rates of 2.3% and 2.9% in 1986 and 1987 respectively.

■ **Pulp and paper:** The absence of cost pressures here, too, will help as chemical and energy inputs post real declines through 1987. This should cause the torrid price escalation of last year (an 8.1% surge) to give way to more restrained 2.5% and 5.5% advances, after the 0.4% in 1985.

■ **Steel:** Quotas along with healthier growth rates in late 1986 will ultimately firm product pricing—in sharp contrast to 1985 when only a 0.9% increase in the overall steel and mill product index is anticipated. For 1986 and 1987, however, the increases will be a bit stronger—3.5% and 4.5%.

■ **Nonferrous metals:** Depressed prices are projected to persist well into the next year as slow growth undermines the market. Moreover, declining interest rates will spark renewed vigor by late 1986, with prices increasing about 1.6% per quarter.

■ **Machinery and equipment:** Price escalation, following labor and material cost trends, will show only modest increases over the next few years. The projected yearly gains: 2.1% this year, 3.8% in 1986, and 5.6% in 1987.

■ **Electronic components:** Active components will remain soft. In some cases, they will continue to edge lower. This is particularly true for the digital MOS IC price index, which will decline sharply over the three years ending 1987 (down 11.0%, 6.1%, and 2.1% in each respective year). Behind the declines: falling prices of new dynamic memory devices and intense Japanese competition.

PW

Prices through 1987

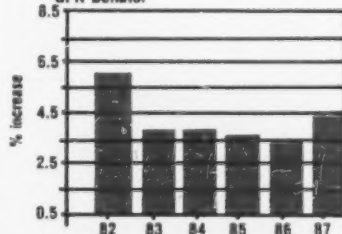
The Detailed Picture

(comparison of third quarter pricing)

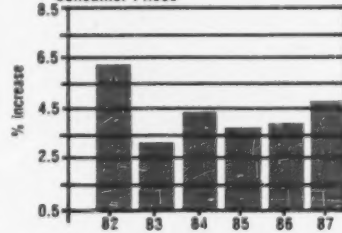
Product	Percent Change		
	85/84	86/85	87/86
Raw materials, energy			
Industrial chemicals	-0.4	2.1	3.3
Miscellaneous chemicals	1.9	3.7	3.3
Pulp & paper	-1.2	3.4	5.8
Manufacturing supplies	1.9	4.2	4.5
Middle distillate fuels	-6.2	-1.3	0.7
Metals			
Steel mill products	0.6	4.0	4.7
Steel strip, H.R. carbon	0.5	5.4	5.0
Steel plate, non-flow, carbon	-0.5	4.0	5.5
Foundry & forge shop products	0.5	3.7	4.5
Primary aluminum (ex billet)	-2.5	0.5	6.0
Domestic copper cathode	2.8	3.8	7.1
Pig lead, common	-31.8	8.2	5.9
Titanium mill shapes	-4.3	4.7	7.1
Components			
Hardware	2.7	2.8	3.9
Misc. metal products	2.9	4.2	3.9
Electronic components	2.5	4.3	4.7
Capacitors	-0.3	3.7	4.6
Construction			
Paint materials	1.9	1.6	6.8
Plastic construction products	-5.1	3.0	3.3
Concrete ingredients	4.1	6.5	6.7
Concrete products	3.2	6.3	5.9
Machinery			
Construction machinery	1.5	5.6	6.3
Pumps & compressors	2.2	4.9	4.5
Integrating & measuring instruments	2.0	3.1	3.9
Oil and gas field machinery	0.2	3.4	4.8

The Overall Trend

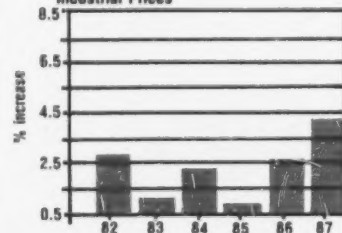
GPN Deflator



Consumer Prices



Industrial Prices



Source: Data Resources, Inc., Cost Forecasting Service